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Rosselló Needs More Than 2 Years for His Fiscal Plan

The Governor will introduce his proposal tomorrow at the House of Representatives, as part of his speech on the Island's situation

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By José A. Delgado Robles



Ricardo Rosselló (Archivo / GFR Media)

WASHINGTON – Tomorrow, Governor Ricardo Rosselló will submit a long-term fiscal plan that exceeds the time frame set by the Oversight Board (OB) to balance the budget. The plan emphasizes that imposing the massive cuts required to tackle the \$7.6-billion deficit in only two years will sink Puerto Rico deeper into the crisis.

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While submitting the plan to the Oversight Board in charge of the Government's finances, Rosselló will deliver a televised message from the Legislature, where he will address the country's situation, explain his agenda, and justify why the harsh cutbacks demanded by the federal authority need to be implemented with less haste.

Rosselló's apparent defiance of the Board does not seem to be based on the size of the cutbacks, but on the time frame granted to make them happen. "Nowhere does PROMESA stipulate that (the cutbacks) must be carried out in two years... Implementing public policy behooves us all," Rosselló stated in a 19-minute interview held with El Nuevo Día this weekend. He also noted that fundamental decisions must not be made by "an unelected board."

The OB's voting members have demanded that Rosselló cut \$3 billion from the budget and seek up to \$1.5 billion a year in new revenues—all of this within a two-year time frame.

The strategy ordered by the Board—to which Congress granted powers over the Island’s elected officials—includes reducing the debt service by almost 80% and government pensions by 10%.

The seven voting members of the OB will have the final say to approve the fiscal plan on March 15, and they have already established the 2018-2019 fiscal year as the deadline to balance the budget. In fact, their appointments expire on August 31, 2019.

On Friday, Rosselló discussed his plan with Treasury Secretary Steve Mnuchin, as part of a round of meetings that included Health Secretary Tom Price, Office of Management and Budget Director Mick Mulvaney, Legislative Affairs Deputy Chief of Staff Rick Dearborn, and Director of Intergovernmental Affairs Justin Clark. During a Governors Association event, Clark told El Nuevo Día he was not authorized to speak on the record.

On the other hand, last Friday, Secretary Mnuchin asked Rosselló and the OB to propose a credible fiscal plan, and he urged the Governor to cooperate with the federal Board.

Rosselló spoke with Secretary Price about the possibility of adding a “financial bridge” to the budget reconciliation that Congress would be considering in March. This “bridge” would protect Puerto Rico’s healthcare system from the impending fiscal abyss caused by the depletion of the nearly \$1.2 billion provided by Medicaid through Obamacare.

The Governor claimed he also told Secretary Price that “every (Island) citizen that leaves to the US costs the federal and state governments three times the amount when they enroll in Medicare and Medicaid.” Rosselló remarked he has also talked with other governors about this.

While on the verge of finishing his plan, Rosselló also met with three of the seven voting members of the Board on Saturday: Chairman José Carrión III, Carlos García, and David Skeel. The Governor notified Secretary Mnuchin of this meeting via Twitter.

This meeting took place in the same hotel where the National Governors Association Winter Meeting is being held. Last night, the Association’s members dined at the White House with President Donald Trump.

You met with the Treasury Secretary on Friday. Will you comply with the Board’s standards?

“What the Treasury Secretary asked was that we have an open communication and be able to reach agreements. We have shown there are open communications so far. I’ve been very clear about what we’re going to do. We’re aware of the extent of the problem. However, the extent of the public policy they established at the beginning, at least, is very different to what I will be proposing.”

You claim you need three to five years to balance the budget without causing devastating harm to the economy. Will we see that in your plan?

“Some things are calculated for a longer term, to be conservative about their impact. It’s public policy that, when implemented, in many of these cases, will have a different mitigating effect than laying off 45,000 public employees, which has an immediate fiscal effect and would certainly have a devastating impact on migration, treasury returns (of funds), and a shatteringly negative effect on the economy of over ten percentage points. I’m convinced that once we submit the plan, which is strong, the reasoning behind each decision will be clear.”

The Board has stated—and José Carrión made it clear the other day during the industrial caucus—‘we provide the room; you provide the furniture.’ If the room has to be ready in two years, you have to adjust to that plan.

“The room is the extent of the problem, which is the (deficit of) \$7.6 billion. Nowhere in PROMESA does it say that it must be done in two years. What it does say is that the income and expenditure issues need to be addressed. So when they make reference to the room, they mean the amount of savings needed. In that context, we agree that there is a severe problem, although he did remark that we are still based on the 2014 audited financial statements. It would be more accurate if we had the 2015 and 2016 statements.”

Broadly speaking, the debt service could be cut by up to 79%.

“We are using their parameters in terms of the items they have established so we can model our work after them. There will certainly be changes. I cannot give you a precise number, because we are still working on the models. But the truth is, it is within the range of what had been established.”

Could it take five years to balance the budget?

“We will get there in less time. The thing is that public policy sometimes has an implementation time frame, and that is very important. Let’s say I approve a law right now, the Single-Employer Act, for example. We have passed the law. Now, we must establish regulations, training, and it will be gradually implemented. So you need the space to execute it. People already know the alternative. In terms of healthcare, if they want an immediate impact, it would mean leaving 700,000 Puerto Ricans without access to healthcare. In terms of pensions, it would mean cutting an additional 10% to the most vulnerable retirees, who are already under the poverty line. It would mean laying off 45,000 public employees and all the consequences—aside from the social repercussions—it has on economic development.”

(Under your plan,) will the budget be balanced in two, three, five, or seven years?

“In less than five years. That is why (we say) three to five years. Our goal is to make it happen as soon as possible. What the people of Puerto Rico, the OB, and Congress need to question is whether we want to rush something that will yield quick fiscal results, but that will take us back to a fiscal, social, and economic decline. We would have to go back to Congress in two or three years in a worse situation. Or we could use this juncture to develop intelligent public policy that reduces spending—which I have always acknowledged is a problem—while solving issues such as those with governmental structures, providing services, the obstacles against doing business in the Island, the ability to renegotiate the debt’s terms, and the quality of life for Puerto Ricans.”

You also warn that there might be social unrest if the Board orders it all to be done within two years. We have seen students marching peacefully on the streets. What would your government, your party, do if the Board rejects your plan? How would they react?

“There has to be a reason behind why something is or isn’t approved. If it’s simply about self-imposed parameters to toss aside a public policy plan that was validated in Puerto Rico by means of an election, vis-a-vis whatever an unelected board wants, then we have a problem. I expect the Board to assess the plan, and they will see that we are attaining most of the objectives and surpassing some of them. Then, they will allow us, as a government, to do what we need to do. It is up to us to implement public policy to obtain results. It is up to them to determine the extent of the problem and the factors to reenter the (financial) markets.”

The written statement made by the Treasury’s spokesperson about your meeting with Secretary Mnuchin mentions Congressional bipartisan support, including Paul Ryan’s. Are you certain that this process does not involve just the Board, but rather the Republican majority in Congress and what they want?

“There must be openness and transparency. The Board’s results, as well as what we are doing as a government, must be taken to public hearings to be evaluated.”

The House Committee on Natural Resources will hold a hearing in March. What would you ask Congress for? An extension to the stay on judicial litigations? Altering the Board’s powers?

“My business is to have a rational fiscal plan that will allow us to make important changes in Puerto Rico, that will allow us to protect the most vulnerable sectors of our society. If we achieve that, I will execute it. If there are other things to consider that surpass the role of the Board or Congress, they must be evaluated. If that happens, we need to take remedial action.”

Are you uncomfortable with the power the Board has over your government?

“It doesn’t make me uncomfortable because it’s clear to me. I have defined it very well, and I understand it clearly, because I have read the bill. I want the Board to do what the Board is supposed to do, no more than that. The Board is not here to establish or prescribe public policy. That is the Governor’s responsibility.”

If the Republican majority in Congress tells you, ‘this Board is implementing what we said when PROMESA was approved. We want fiscal reforms and huge cutbacks before even thinking about anything else.’

“We’ll show them. One of the big comparisons is in terms of government size. You can lay off 45,000 public employees. This would have a devastating effect on the exodus and over 45,000 families, which would lead to a negative impact of at least 10% in economic growth. It would hurt families and have a serious social impact. Or you could establish a strategy to reduce the 131 current agencies to 35, which is what we propose to execute as public policy. The option I propose does not just reduce government spending; it gives way to a functional government.”

You told Politico that the budget has been handled as if it were a fraud scheme (a Ponzi scheme). In that case, why not audit the debt?

“Let’s define what we already have. There’s a committee to ‘audit the debt.’ It has yielded no results yet. They have a million-dollar budget. Let’s suppose they did have results, stating that credits A, B, and C are illegal... What do you think will happen with those credits? They will go to court.”

Would you have those steps ready beforehand, from the standpoint of the Puerto Rican Government and society?

“This does not come from the Puerto Rican society. It comes from a committee that was established without the powers to make that decision.”

You could do it.

“We are assessing what our fiscal agent is doing to identify priorities and analyze how those credits were established. But the truth is that the courts will be the ones to decide that. The Puerto Rican people need to consider whether we want to create a plan consisting purely of projections—where did we spend millions on ‘God knows what’—or if we want to take it where it needs to go. The creditors themselves, like the ones holding general obligations and COFINA bonds, are already suing each other. The courts will decide on that. The question is whether we want to spend millions along the way or to save those funds. I want that to be seen, and it will be heard and established in a courtroom. But I simply do not see how a committee that will not yield results will help the people of Puerto Rico.”

If it takes the Puerto Rican Government five years to balance the budget, the Board’s presence will be extended at least by nine years. The January 2025 deadline—suggested in the bill introduced by Resident Commissioner in Washington Jenniffer González, for Puerto Rico’s admission as the 51st state—would not be a realistic objective.

“The statehood date is real as long as we keep up the pressure, as long as we keep demanding to go to a federal level after the referendum. That doesn’t worry me. We could fall under the impression that some of these public policies can be implemented within two years. However, we will enter an even more precarious situation than the one we face today if we do not have a way to mitigate the devastating social and economic effect, as well as its impact on the renegotiation of the debt’s terms. This would affect the opportunity to (come) to Washington looking for resources. We need to think about all of those tools. We want to develop a plan that takes all of those elements into account, because devising a two-year plan is of no use if the situation will drastically worsen and we have to continue extending this even further.”

Will Washington understand that process? I bring your attention to your interview with Fox News’s Neil Cavuto last Friday. People in Puerto Rico know that the push for statehood has been going on for years, but Cavuto immediately linked it with the fiscal crisis. Plus statements from Congress, including Senator Orrin Hatch and some of your allies, say that the fiscal issue must be solved first.

“This is a multilevel issue: economic development, democracy, civil rights. This cannot wait. There will always be someone who says now is not the time for statehood. Our goal is to keep creating the conditions so that the (Congressional) majority will give Puerto Rico the opportunity of becoming a state.”

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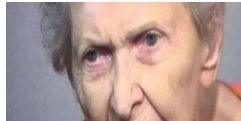
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